

CHAPTER 6

GENERAL, FIELD WORK, AND REPORTING STANDARDS FOR ATTESTATION ENGAGEMENTS

INTRODUCTION

6.1 In an attestation engagement, auditors issue an examination, a review, or an agreed-upon procedures report on subject matter, or on an assertion about the subject matter, that is the responsibility of another party. Attestation engagements can cover a broad range of financial or nonfinancial objectives¹ and can be part of a financial statement audit or other engagement. Attestation engagements are governed by the standards for attestation engagements issued by the American Institute of Certified Public Accountants (AICPA). Generally accepted government auditing standards (GAGAS) incorporate for attestation engagements the AICPA's general standard on criteria, its field work standards, and its reporting standards, as well as the AICPA Statements on Standards for Attestation Engagements (SSAEs), which interpret the attestation standards, unless the Comptroller General of the United States excludes them by formal announcement.² This chapter identifies the AICPA's general standard on criteria,³ field work standards, and reporting standards and prescribes additional field work and reporting standards, as well as guidance, for attestation engagements performed in accordance with GAGAS.

¹ See chapter 2 for examples of objectives for attestation engagements.

² To date, the Comptroller General has not excluded any field work standards, reporting standards, or statements on standards for attestation engagements.

³ GAGAS incorporate only one of the AICPA's general standards for attestation engagements. In addition to this general standard, auditors should follow the general standards for work performed under GAGAS, as discussed in chapter 3.

AICPA GENERAL AND FIELD WORK STANDARDS
FOR ATTESTATION ENGAGEMENTS

6.2 The AICPA's general standard related to criteria states the following.

The practitioner [auditor] shall perform an engagement only if he or she has reason to believe that the subject matter is capable of evaluation against criteria that are suitable and available to users.

6.3 The two AICPA field work standards for attestation engagements are as follows.

a. The work shall be adequately planned and assistants, if any, shall be properly supervised.

b. Sufficient evidence shall be obtained to provide a reasonable basis for the conclusion that is expressed in the report.

ADDITIONAL FIELD WORK STANDARDS
FOR ATTESTATION ENGAGEMENTS

6.4 GAGAS require additional field work standards for attestation engagements in the following areas:

a. auditor communication (see paragraphs 6.5 and 6.7),

b. considering the results of previous audits and attestation engagements (see paragraphs 6.8 through 6.10),

c. audit documentation (see paragraphs 6.11 through 6.17),

d. internal control (see paragraphs 6.18 and 6.19), and

- e. fraud, illegal acts, and other noncompliance (see paragraphs 6.20 through 6.22).

Auditor Communication

6.5 An additional field work standard for attestation engagements performed in accordance with GAGAS is:

Auditors should communicate information to officials of the audited entity and the individual contracting for the audit services regarding the nature and extent of planned testing and reporting on the subject matter or assertion.

6.6 During the planning stages of an attestation engagement, auditors should communicate to officials of the audited entity and to individuals requesting or contracting for the services information regarding the nature and extent of testing and reporting, including any potential restriction of reports associated with the different levels of assurance services, to reduce the risk that the needs or expectations of the parties involved may be misinterpreted. For example, attestation standards provide for the following three levels of assurance.

a. Examination: Auditors perform sufficient testing to express an opinion whether the subject matter is based on (or in conformity with) the criteria in all material respects or the assertion is presented (or fairly stated), in all material respects, based on the criteria.

b. Review: Auditors perform sufficient testing to express a conclusion whether any information came to the auditors' attention on the basis of the work performed that indicates the subject matter is not based on (or in conformity with) the criteria or the assertion is not presented (or fairly stated) in all material respects based on the criteria.⁴

⁴ As stated in the AICPA's statements on standards for attestation engagements, auditors should not perform review-level work for reporting on internal control or compliance with laws and regulations.

c. **Agreed-upon procedures:** Auditors perform testing to issue a report of findings based on specific procedures performed on subject matter.

6.7 Auditors should use their professional judgment to determine the form and content of the communication, although written communication is preferred. Auditors may use an engagement letter, if appropriate, to communicate the information. If the attestation engagement is part of a larger audit, this information may be communicated as part of that audit. Whatever the form of the communication, auditors should include audit documentation regarding the communication.

Considering the Results of Previous Audits
and Attestation Engagements

6.8 An additional field work standard for attestation engagements performed in accordance with GAGAS is:

Auditors should consider the results of previous audits and attestation engagements and follow up on known significant findings and recommendations that directly relate to the subject matter of the attestation engagement being undertaken.

6.9 Auditors should determine whether officials of the audited entity have taken appropriate corrective actions on known reported significant findings and recommendations.⁵ In addition to following up on significant reported findings and recommendations from previous financial audits or attestation engagements, auditors should consider significant findings identified in performance audits and other studies if these findings relate to subject matter or assertions of the attestation engagement. For example, an audit report on an entity's computerized information systems may contain significant findings that could relate to the attestation engagement if the entity uses such systems to process information about the subject matter or contained in an assertion about the subject matter. Following up on known significant findings and

⁵ Significant findings and recommendations are those matters that, if not corrected, could affect the results of the auditors' work and users' conclusions about those results.

recommendations identified in previous audits, attestation engagements, or studies can help auditors evaluate the subject matter or the assertion associated with the attestation engagement.

6.10 Providing continuing attention to significant findings and recommendations is important to ensure the benefits of audit work are realized. Ultimately, the benefits of audit work occur when audit findings are resolved through meaningful and effective corrective action in response to the auditors' findings and recommendations. Officials of the audited organization are responsible for resolving audit findings and recommendations directed to them and for having a process to track their status. If officials of the audited organization do not have such a process, auditors may wish to establish their own process.

Audit Documentation

6.11 The additional field work standard related to audit documentation for attestation engagements performed in accordance with GAGAS is:

Audit documentation should contain sufficient information to enable an experienced reviewer, who has had no previous connection with the attestation engagement, to ascertain from the audit documentation the evidence that supports the auditors' significant judgments and conclusions. Audit documentation that supports significant findings, conclusions, and recommendations should be complete before auditors issue their report.

6.12 AICPA standards and GAGAS require that auditors should prepare and maintain audit documentation. The form and content of audit documentation should be designed to meet the circumstances of the particular attestation engagement. The information contained in audit documentation constitutes the principal record of the work that the auditors have performed and the conclusions that the auditors have reached. The quantity, type, and content of audit documentation is a matter of the auditors' professional judgment.

6.13 GAGAS extend the level of required audit documentation to be sufficient for an experienced reviewer who has had no previous connection with the engagement to understand

the evidence that supports the auditors' significant judgments and conclusions. Further, such documentation must be complete before auditors issue their report.

6.14 Attestation engagements done in accordance with GAGAS are subject to review by other auditors and by oversight officials more frequently than audits done in accordance with AICPA standards. Thus, whereas AICPA standards cite two main purposes of audit documentation--providing the principal support for the audit report and aiding auditors in the conduct and supervision of the audit--audit documentation serves an additional purpose in attestation engagements performed in accordance with GAGAS. Audit documentation allows for the review of audit quality by providing the reviewer documentation, either in written or electronic formats, of the evidence supporting the auditors' significant judgments and conclusions.

6.15 Audit organizations should establish reasonable policies and procedures for the safe custody and retention of audit documentation for a time sufficient to satisfy legal and administrative requirements. If audit documentation is only retained electronically, the audit organization should ensure that the electronic documentation is capable of being accessed throughout the specified retention period established for audit documentation and is safeguarded through sound computer security.

6.16 Audit documentation for attestation engagements under GAGAS should contain the following.

- a.** The objectives, scope, and methodology, including any sampling criteria used.
- b.** Documentation of the auditor's determination that certain additional government auditing standards do not apply or that an applicable standard was not followed, the reasons therefore, and the known effect that not following the standard had, or could have, on the attestation engagement.

c. Documentation of the work performed to support significant judgments and conclusions, including descriptions of transactions and records examined that would enable an experienced reviewer to examine the same transactions and records.⁶

d. The consideration that the planned procedures are designed to achieve objectives of the attestation engagement when evidential matter obtained is highly dependent on computerized information systems and is material to the objective of the engagement, and the auditors are not relying on the effectiveness of internal control over those computerized systems that produced the information. The audit documentation should specifically address (1) the rationale for determining the nature, timing, and extent of planned audit procedures; (2) the kinds and competence of available evidential matter produced outside a computerized information system; and (3) the effect on the attestation engagement report if evidential matter to be gathered does not afford a reasonable basis to achieve the objectives of the engagement.

e. Evidence of supervisory reviews of the work performed.

6.17 One factor underlying GAGAS audits is that federal, state, and local governments and other organizations cooperate in auditing programs of common interest so that auditors may use others' work and avoid duplicate audit efforts. In addition, attestation engagements performed in accordance with GAGAS are subject to quality control and assurance reviews. Auditors should make arrangements to make audit documentation available, upon request, in a timely manner to other auditors or reviewers. Contractual arrangements for attestation engagements performed in accordance with GAGAS should provide for full and timely access to audit documentation to facilitate reliance by other auditors on the auditors' work, as well as reviews of audit quality control and assurance.

⁶ Auditors may meet this requirement by listing voucher numbers, check numbers, or other means of identifying specific documents they examined. Auditors are not required to include copies of documents they examined as part of the audit documentation, nor are auditors required to list detailed information from those documents.

Internal Control

6.18 An additional field work standard for attestation engagements performed in accordance with GAGAS is:

In planning examination-level attestation engagements, auditors should obtain a sufficient understanding of internal control that is material to the subject matter or assertion to plan the engagement and design procedures to achieve the objectives of the attestation engagement.

6.19 In planning the engagement, auditors should obtain an understanding of internal control⁷ as it relates to the subject matter or assertion to which the auditors are attesting. The subject matter or assertion may be of a financial or nonfinancial nature, and internal control relevant to the subject matter or assertion the auditor is testing may relate to

- a.** effectiveness and efficiency of operations, including the use of an entity's resources;
- b.** reliability of financial reporting, including reports on budget execution and other reports for internal and external use;
- c.** compliance with applicable laws and regulations; and
- d.** safeguarding of assets.

⁷ Although not applicable to attestation engagements, the AICPA statements on auditing standards may provide useful guidance related to internal control for auditors performing attestation engagements in accordance with GAGAS. In addition, auditors performing attestation engagements may wish to refer to the internal control guidance published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999), which incorporates the relevant guidance developed by COSO, provides definitions and fundamental concepts pertaining to internal control at the federal level and may be useful to auditors at any level of government. The related *Internal Control Management and Evaluation Tool* (GAO-01-1008G, August 2001), based on the federal internal control standards, provides a systematic, organized, and structured approach to assessing the internal control structure.

Fraud, Illegal Acts, and Other Noncompliance

6.20 An additional field work standard for attestation engagements performed in accordance with GAGAS is:

In planning examination-level attestation engagements, auditors should design the engagement to provide reasonable assurance of detecting fraud, illegal acts, or other noncompliance that could have a material effect on the subject matter or assertion of the attestation engagement.

6.21 Auditors should exercise professional judgment in planning the engagement by obtaining an understanding of the possible effects of fraud, illegal acts, or other noncompliance on the subject matter or assertion of the attestation engagement and by identifying and assessing any associated risks that could have a material effect on the attestation engagement.⁸ Auditors should include audit documentation on their assessment of risk, and, when risk factors are identified as being present, the documentation should include

- a.** those risk factors identified, and
- b.** the auditors' response to those risk factors, individually or in combination.

6.22 In addition, if during the performance of the attestation engagement, risk factors or other conditions are identified that cause the auditors to believe that an additional response is required, such factors or other conditions, and any future response the auditors concluded was appropriate, should be documented.

⁸ Although not applicable to attestation engagements, the AICPA statements on auditing standards may provide useful guidance related to fraud for auditors performing attestation engagements in accordance with GAGAS.

AICPA REPORTING STANDARDS
FOR ATTESTATION ENGAGEMENTS

6.23 The AICPA standards for attestation engagements provide for three levels of reporting based on the type of assurance the auditor is providing. (See paragraph 6.6.) The four AICPA reporting standards for attestation engagements are as follows.

- a. The report shall identify the subject matter or the assertion being reported on and state the character of the engagement.**
- b. The report shall state the practitioner's [auditors'] conclusions about the subject matter or the assertion in relation to the criteria against which the subject matter was evaluated.**
- c. The report shall state all of the practitioner's [auditors'] significant reservations about the engagement, the subject matter, and, if applicable, the assertion related thereto.**
- d. The report shall state that the use of the report is restricted to specified parties under the following circumstances:⁹ (1) When the criteria used to evaluate the subject matter are determined by the practitioner to be appropriate only for a limited number of parties who either participated in their establishment or can be presumed to have an adequate understanding of the criteria. (2) When the criteria used to evaluate the subject matter are available only to specified parties. (3) When reporting on subject matter and a written assertion has not been provided by the responsible party. (4) When the report is on an attest engagement to apply agreed-upon procedures to the subject matter.**

⁹ Auditors should, however, follow the report distribution standard. (See paragraphs 6.39 through 6.43.)

ADDITIONAL REPORTING STANDARDS FOR ATTESTATION ENGAGEMENTS

6.24 GAGAS require additional reporting standards for attestation engagements in the following areas:

- a.** reporting compliance with generally accepted government auditing standards (see paragraphs 6.25 through 6.27);
- b.** reporting on internal control and on fraud, illegal acts, and other noncompliance (see paragraphs 6.28 through 6.31);
- c.** views of responsible officials (see paragraphs 6.32 through 6.36);
- d.** privileged and confidential information (see paragraphs 6.37 and 6.38); and
- e.** report issuance and distribution (see paragraphs 6.39 through 6.43).

Reporting Compliance With Generally Accepted Government Auditing Standards

6.25 An additional reporting standard for attestation engagements performed in accordance with GAGAS is:

Reports on attestation engagements should state that the engagement was made in accordance with generally accepted government auditing standards.

6.26 The above statement refers to all the applicable standards that the auditors should have followed during the attestation engagement. The statement should be qualified in situations where the auditors did not follow an applicable standard. In these situations, the auditors should disclose in the scope section of the report the applicable standard that was not followed, the

reasons therefore, and how not following the standard affected, or could have affected, the results of the attestation engagement.

6.27 When the report on the attestation engagement is submitted to comply with a legal, regulatory, or contractual requirement for a GAGAS audit, it should specifically cite GAGAS. An audited entity receiving a GAGAS attestation report may also need a report on the attestation engagement for purposes other than to comply with requirements calling for a GAGAS audit. When a GAGAS attestation engagement is the basis for an auditor's subsequent report under the AICPA standards, it would be advantageous to users of the subsequent report for the auditor's report to include the information on compliance with laws and regulations and internal control that is required by GAGAS but not required by AICPA standards. To reissue essentially the same report omitting the information regarding compliance with laws and regulations and internal control is not in the public interest.

Reporting on Internal Control and on Fraud,
Illegal Acts, and Other Noncompliance

6.28 An additional reporting standard for attestation engagements performed in accordance with GAGAS is:

The report on an attestation engagement should disclose deficiencies in internal control, including internal control over compliance with laws and regulations, that are material to the subject matter or assertion. Fraud, illegal acts, and other noncompliance often result from the lack, or circumvention, of internal control. Accordingly, auditors should also disclose in the report on the attestation engagement instances of fraud, illegal acts, or other noncompliance that are material to the subject matter or the assertion.

6.29 Auditors should place their findings in proper perspective by providing a description of the objectives, scope, and methodology used to conduct the work. To give the reader a basis for judging the prevalence and consequences of these findings, the instances identified should be related to the population or the number of cases examined and be quantified in terms of dollar

value, if appropriate. Auditors need not report information about fraud or an illegal act that is clearly inconsequential. However, these matters should be brought to the attention of management of the audited entity.

6.30 To the extent possible, auditors should present findings to identify the elements of criteria, condition, and effect, as well as cause when problems are found. In addition, auditors should provide recommendations for corrective action if auditors are able to sufficiently develop the findings. However, the elements needed for a finding depend entirely on the scope and objectives of the attestation engagement, and, as a result, may not always have all of the elements fully developed. At a minimum, auditors should identify the condition, criteria, and possible effect to provide sufficient information to federal, state, and local officials to assist them in taking corrective action.

6.31 When auditors detect deficiencies in internal control that are not material to the subject matter or assertion or conclude, on the basis of evidence obtained, that fraud, an illegal act, or other noncompliance either has occurred or is likely to have occurred,¹⁰ they should communicate relevant information to officials of the audited entity, preferably in writing. Auditors should include in their audit documentation evidence of all communications to officials of the audited entity about deficiencies in internal control or indications of fraud, illegal acts, or other noncompliance.

Views of Responsible Officials

6.32 An additional reporting standard for attestation engagements performed in accordance with GAGAS is:

¹⁰ Whether a particular act is, in fact, illegal may have to await final determination by a court of law. Thus, when auditors disclose matters that have led them to conclude that an illegal act is likely to have occurred, they should not imply that they have made a determination of illegality.

If the auditor's report discloses significant deficiencies, auditors should report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as corrections planned.

6.33 One of the most effective ways to ensure that a report is fair, complete, and objective is to obtain advance review and comments by responsible officials of the audited entity and others, as may be appropriate. Including the views of responsible officials produces a report that shows not only what was found and what the auditors think about it but also what the responsible persons think about it and what they plan to do about it.

6.34 Auditors should normally request that the responsible officials' views on significant findings, conclusions, and recommendations be submitted in writing. Oral comments are acceptable as well, and, in some cases, may be the only or most expeditious way to obtain comments. Cases in which obtaining oral comments can be effective include when there is a time-critical need to meet a user's needs; the auditors have worked closely with the responsible officials throughout the conduct of the work and the parties are very familiar with the findings and issues addressed in the draft product; or the auditor does not expect major disagreements with the draft report's findings, conclusions, and recommendations, or perceive any major controversies with regard to the issues discussed in the draft report. Auditors should prepare a summary of the officials' oral comments and provide a copy of the summary to management of the audited entity to verify that the comments are accurately stated.

6.35 Comments should be fairly and objectively evaluated and recognized, as appropriate, in the final report. Comments, such as a promise or plan for corrective action, should be noted but should not be accepted as justification for dropping a significant finding or a related recommendation.

6.36 When the comments oppose the report's findings, conclusions, or recommendations, and are not, in the auditors' opinion, valid, the auditors should state their reasons for disagreeing with the comments. The auditors' disagreement should be stated in a fair and objective manner. Conversely, the auditors should modify their report as necessary if they find the comments valid.

Auditors may wish to attach the comment letter to the audit report to provide the reader with both points of view.

Privileged and Confidential Information

6.37 An additional reporting standard for attestation engagements performed in accordance with GAGAS is:

If certain pertinent information is prohibited from general disclosure, the report on the attestation engagement should state the nature of the information omitted and the requirement that makes the omission necessary.

6.38 Certain information may be prohibited from general disclosure by federal, state, or local laws or regulations. Such information may be provided on a need-to-know basis only to persons authorized by law or regulation to receive it. Additional circumstances associated with public safety and security concerns could also justify the exclusion of certain information in the report. For example, information related to computer security for a particular program should be excluded from the report because of the potential damage that could be caused by the misuse of this information. In such circumstances, auditors may issue a limited official-use report containing such information and distribute the report only to those parties responsible for acting on the auditors' recommendations.

Report Issuance and Distribution

6.39 An additional reporting standard for attestation engagements performed in accordance with GAGAS is:

Auditors should submit written reports on the attestation engagement to the appropriate officials of the audited entity and to the appropriate officials of the organizations requiring or arranging for the engagement, including external funding organizations, unless legal restrictions prevent it. Auditors should also send copies of the reports to other officials

who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports. Unless the report is restricted by law or regulation, auditors should ensure that copies be made available for public inspection.

6.40 Reports should be distributed in a timely manner to officials interested in the results. Such officials include those designated by law or regulation to receive such reports, those responsible for acting on the findings and recommendations contained in the report, those of other levels of government that have provided assistance to the audited entity, and legislators.

6.41 If the subject of the attestation engagement involves material that is classified for security purposes or not releasable to particular parties or the public for other valid reasons, auditors may limit the report distribution. Although AICPA standards require that a report on an engagement to evaluate an assertion that has been prepared on agreed-upon criteria or on an engagement to apply agreed-upon procedures should contain a statement limiting its use to the parties who have agreed upon such criteria or procedures, such a statement does not require that the report distribution be limited.

6.42 When public accountants are engaged, the engaging organization should ensure that the report is distributed appropriately. If the public accountants are to make the distribution, the engagement agreement should indicate which officials or organizations should receive the report and other steps being taken to ensure the availability of the report for public inspection.

6.43 Internal auditors should follow their entity's own arrangements and statutory requirements for distribution. Usually, they report to their entity's top manager, who is responsible for distribution of the report. Further distribution of reports outside the organization should be made in accordance with applicable laws, rules, regulations, or policy.